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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Business Recovery . . .

In spite of the ongoing business upturn, U.S. merchandise exports continue to reel from the combined impact of a surging dollar, slow recovery from recession in other industrial countries and the difficulty of many developing countries in financing imports. In July, U.S. exports fell by 2.2 per cent, contributing to the third largest monthly trade deficit on record—$6.4 billion. What is more, exports in July were eight per cent below the same month last year. Combined with rising imports (up 4.7 per cent in July), the plunge in overseas sales is expected to generate a merchandise trade deficit which may reach $70 billion this year (c.i.f., imports/f.a.s., exports basis), well above last year's $42.7 billion, the previous record.

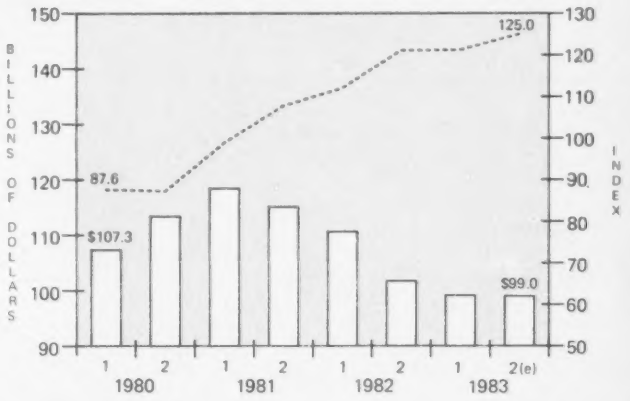
The decline in exports in July was not unexpected, especially since the prior month's exports were buoyed by a surge in commercial aircraft and agricultural export deliveries. Declines in chemical and fuel exports more than offset slight increases in exports of military goods, telecommunication equipment and some other export categories. In the first seven months of this year, merchandise exports were ten per cent below the same period last year and 16 per cent below the level for the same period in 1981.

Although the strength of the dollar against other major trading currencies has made U.S. products uncompetitive on a price basis, that is not the only reason for this country's poor export picture. Capital goods exports, for example, are often sold on such other criteria as performance and delivery schedules rather than on price. Hence, the strong dollar is not always an obstacle to exports. Nonetheless, as the chart clearly illustrates, the dollar's appreciation has been a major detriment to U.S. export performance. Between the first half of 1981 and the first half of 1983, the U.S. dollar appreciated by about 23 per cent on a trade-weighted basis, while U.S. merchandise exports fell by more than 16 per cent.

. . . Skips U.S. Exports . . .

The hesitant recovery in the other industrial countries has also retarded U.S. exports. Over 55 per cent of our exports go to these countries which are just beginning to emerge from the global recession. The 24 principal industrial countries are expected to show aggregate real growth of less than two per cent this year after a decline of 0.2 per cent in 1982. It may well be late this year or early 1984 before these countries' recoveries are well under way.

U.S. MERCHANDISE EXPORTS (BAR) VS.
TRADE WEIGHTED DOLLAR INDEX – MARCH 1973=100 (DOT)



The developing countries, which usually take close to 40 per cent of the exports of the United States, have also reduced their purchases. Several oil-producing nations have seen their trade surpluses evaporate due to both lower oil prices and recession-induced declines in global energy consumption. The non-oil developing countries, struggling with large external debts combined with high interest rates and their own falling exports, are compelled to dedicate a substantial part of their foreign exchange earnings to servicing their external obligations.

None of the causes of the decline in U.S. exports appears likely to change within the next few months, and there will be a lag before a weakening dollar or rising rates of real growth abroad will be reflected in an improving export picture. Further, as the economic recovery in the U.S. advances, rising imports will continue to exceed exports—widening our trade deficit.

. . . But Not Corporate Profits

Despite lackluster export prospects, much of the news from corporate America is extremely encour-

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aging. With the pace of business activity gathering an unanticipated momentum in the second quarter, so too, did the rebound in corporate profits—which posted their most impressive quarterly gain in nearly a decade. Indeed, the strong revival in corporate profits, together with sharp cutbacks in capital spending for inventories, plant and equipment, virtually ensure that business credit demands will remain soggy—postponing the long-anticipated clash between public and private borrowings. Nor is this situation expected to change anytime soon, auguring well for stable, if not lower interest rates.

According to the Commerce Department, before-tax corporate profits in the second quarter advanced by a sizable $30 billion quarter-over-quarter, or more than 17 per cent, to a seasonally adjusted $199 billion annual rate. Not only did this reverse a good chunk of the profits plunge which took place in 1982 but, with only one exception, it was the largest, quarter-over-quarter percentage rise in pre-tax profits in more than 30 years. What is more, after-tax earnings also soared during the April-June period, rising a hefty $16 billion to a seasonally adjusted $124 billion annual rate.

With cash flows bolstered by both rising earnings and more generous depreciation allowances, and with capital oulays scaled back, it is hardly surprising that business credit demands have faded. Short-term borrowings in particular have slumped, reflecting not only the sharp upturn in cash flow, but also the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/24/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	154.464	+ .128	+12.227
Loans to Depository Inst.	1.580	+ .102	+ .971
Float	1.393	+ .282	– .465
Total Reserve Bank Credit	164.971	– .139	+11.167
Treasury Deposits with Federal Reserve Banks	3.559	+ .249	+ .687
Currency Outside Banks	144.748	– .157	+11.901
Member Bank Reserves:			
Required	38.341	– .017	– 1.702
Excess (Deficiency)	.431	– .045	+ .171
Total Reserves Held	38.772	– .062	– 1.531
Net Borrowed Reserves	.418	+ .112	+ .281
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	108.983	– 1.137	+14.486
Monetary Aggregates †		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1	515.3	+ 8.3‡	+ 12.9‡
M2 (July '83)	2,125.4	+ 9.8	+ 13.0
M3 (July '83)	2,510.0	+ 9.1	+ 9.9
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

* Seasonally adjusted annual rate.
‡ Four-week moving average.
† Seasonally adjusted.

New York Money Market

Offering Rates 9/2/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.00%	9.30%	9.45%
* Federal Agencies	9.55	10.15	10.30
* Project Notes—Taxfree (46% Taxable Equivalent)	10.19	11.02	11.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.80	10.15	10.90

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	Oct.	9.40%
15- 29 days	9.38	Nov.	9.50
30- 59 days	9.38	Dec.	9.55
60- 89 days	9.25	Jan.	9.70
90-179 days	9.25	Feb.	9.70
180-239 days	9.25	Mar.	9.65
240-270 days	9.25		

‡ Industrial Paper—Prime		† Federal Funds Effective Rate	9.60%
30- 89 days	9.38%		
90-120 days	9.50		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,270	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,523	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.2	2.6	0.9
Change in Consumer Prices (new series)*	Jul '83n	4.8%	2.4%	7.2%
Change in Producer Prices*	Jul '83	1.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons) †	Aug '83n	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force †	Aug '83n	9.5%	9.5%	9.9%
Personal Income*	Jul '83	$ 2,751	$ 2,736	$ 2,530
Leading Indicators Composite Index (1967=100)†	Jul '83n	157.7	157.2r	136.2
Industrial Production Index (1967=100) †	Jul '83	148.6	146.0	138.8
Net Change in Consumer Installment Credit †	Jun '83	$ 4.41	$ 2.70	$ 2.02
U.S. Merchandise Trade Balance †	Jul '83n	–$ 6.36	–$ 4.96	–$ 2.70
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	Jul '83	1,741	1,752r	1,185
New Construction Expenditures*	Jul '83n	$ 267.7	$ 263.1r	$ 230.8
Total Business Inventories †	Jun '83	$ 505.0	$ 505.7	$ 521.0
Total Business Sales †	Jun '83	$ 371.6	$ 364.1	$ 349.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

funding of short-term debt in the long-term bond markets. Since late last year, both commercial and industrial loans and nonfinancial company commercial paper outstanding have dropped, resulting in the first pronounced decline in the proportion of total corporate debt accounted for by short-term liabilities since 1976. And, in recent weeks, even the brisk pace of long-term debt offerings has moderated. With long-term interest rates backing up, the volume of new bond offerings has diminished. Whereas the new-issue, corporate bond calendar averaged about $4 billion monthly between January and July, total offerings slumped to a relatively paltry $1.6 billion in August.

Nor have businessmen neglected long-deteriorating equity positions in this round of corporate funding. Net new stock issues ran at an approximately $30 billion seasonally adjusted annual rate during the first half of 1983, accounting for more than one-third of all external funds raised by U.S. nonfinancial corporations. Not since 1975 has equity finance accounted for such a sizable proportion of business external finance. Indeed, it was a similar pattern of corporate finance in the mid-1970s—characterized by rapidly rising earnings, robust levels of equity finance and the pay down of short-term debt—which was largely responsible for the behavior of interest rates following the 1973-75 recession. At that time, short- and long-term rates continued to decline for almost two years after the trough of the business cycle. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/17/83)	94,528	+ 1,329	–54,064
New York City (8/17/83)	22,600	+ 528	–17,172
Commercial Paper (8/17/83)	174,280	– 685	– 7,749

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/17/83)	213,746	– 971	+ 1,971
New York City (8/17/83)	58,269	– 687	– 980

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/17/83)	508,893	+ 1,553	+13,882
New York City (8/17/83)	117,426	– 44	+ 1,243

Financial Markets

	Friday 9/2/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.65%	-0-	+ 1.11
180-Day Bills†	10.10	-0-	-0-
Longest Bills†	10.50	+ .10	– .39
Recent Issues:			
10⅝s 8/31/85	11.20	+ .20	
10½s 6/30/87	11.65	+ .25	
11⅞s 8/15/93	12.00	+ .30	
12s 8/15/13	12.00	+ .30	
Municipals:			
Bond Buyer–20 Bond Index* (9/1/83)	9.75%	+ .16	– .99
Blue List Total ($ Million)	$1,143.4	+$ 53.6	– $ 21.6
30-Day Visible Supply ($ Million)	$2,377.7	+$251.8	– 143.3
Total	$3,521.1	+$305.4	– $164.9
Corporates:			
Moody's Aa Composite (9/1/83)	12.78%	+ .23	– 1.20
30-Day Visible Supply ($ Million)	$ 510	+$ 15	– $ 900
Stocks:			
Dow-Jones Averages:			
Industrials	1,215.45	+ 23.38	+ 290.32
Transportation	558.94	+ 26.44	+ 189.26
Utilities	130.11	– 0.96	+ 12.82
65 Stocks	482.11	+ 11.71	+ 122.59
Standard and Poor's 500 Stocks	165.00	+ 2.86	+ 42.32
N.Y.S.E. Composite Index	95.28	+ 1.48	+ 25.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	66,368	– 3,074	– 20,512

* 46% Taxable equivalent 18.06%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/2/83	Week Ago
Overnight	9.50%	8.88%
1 month	9.88	9.44
3 month	10.25	9.88
6 month	10.63	10.31
1 year	11.00	10.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.15%	12.05%
Long Term (7 to 15 yrs.)	12.25	11.95

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/2/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01842	54.29
Canada	.8112	1.2328
Denmark	.1028	9.7300
France	.1230	8.1275
Germany	.3704	2.7000
Italy	.0006205	1611.50
Japan	.004051	246.85
Mexico	.00649	154.00
Netherlands	.3312	3.0190
Switzerland	.4568	2.1890
U.K.	1.4945	.6691

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